

ECONOMICS

Protect the long run economic interests of all rate payers and the financial position of the utility.

Philosophy

In order to maintain the sound economic position of the utility and to provide reasonable rates to customers, the department will responsibly, efficiently, and effectively manage its activities. The department is responsible for providing an essential public service at a cost that is affordable and equitably distributed.

The costs associated with developing, operating, and maintaining facilities required to reliably provide safe, high quality water to users are considerable. In addition, the department recognizes that environmental considerations and constraints may cause costs to rise. In assessing the true cost of department actions, the department will consider quantifiable economic costs along with the less quantifiable environmental costs and benefits of its actions. Because many environmental costs are difficult to quantify, and conservation programs have minimal environmental impact, these programs will receive special economic consideration. (As discussed in the Resource Selection Policy, Implementation Guidelines, all resource options will be evaluated for cost effectiveness based on marginal cost, except for demand management programs, which will be within 110% of the current estimated marginal cost.)

Policy Implementation Guidelines

- (1) Economic planning will be guided by the principle of ensuring that goods and services provided will represent a fair and reasonable value to all customer groups.
- (2) The department will consider future Capital Improvement Program projects and Operation and Maintenance programs if they are cost-effective based on the minimum true cost to the region over the long-run while protecting the interests of retail and contracted wholesale customers.
- (3) Rate structures based on marginal cost principles will be used to reflect the true costs of supplying water to consumers, and the true cost of growth, thereby encouraging economic efficiency.
- (4) The cost-effectiveness analysis of projects in the water supply planning process will consider capital costs, costs incurred in maintaining the facility over its life span, and the value beyond the current planning period.
- (5) Costs will be equitably and appropriately distributed to all user groups.
- (6) Representatives from interests within the service area will advise in the rate setting process.
- (7) Wholesale rates will be established according to provisions in the contracts with existing wholesale customers.
- (8) Retail rates and rate relief programs will consider the affordability of goods and services to those consumers least able to pay.
- (9) Policies to guide the determination of rates and rate structures, and the manner in which capital projects and conservation programs are financed, will be periodically re-evaluated and changed as appropriate.